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SUBJECT: PROPOSED U.S. TOBACCO TAX WOULD JEOPARDIZE JOBS
IN NICARAGUAN CIGAR SECTOR

REF: STATE 6604

Summary

¶1. (SBU) In an August 2 meeting with the Ambassador, representatives of the Nicaraguan cigar industry voiced concern that a proposal to increase cigar taxes in the United States will snuff out growth in their sector. They warned that the tax would jeopardize the jobs of 15,000 direct employees and another 15,000 indirect employees. Industry representatives are seeking support on this issue from the Nicaraguan government, claiming the tax may be inconsistent with U.S. CAFTA-DR commitments. They also plan to contact members of the U.S. Congress directly on the issue. If passed, the tax may provide President Ortega with an example of "U.S. duplicity" in offering market access through CAFTA-DR only to cut it through an excise tax.
End Summary.

Social and Economic Impact

¶2. (U) Representatives of the Nicaraguan Cigar Guilders Association, which includes several U.S. companies, met with the Ambassador on August 2, 2007, to discuss a bill the U.S. Congress is debating to fund child healthcare with an increase in excise taxes on tobacco products. During the meeting, the association's membership voiced concern with both the Senate version, which would tax cigars at 53.13%, with a \$10 cap per cigar, and a House version, which would tax cigars at 44.63%, with a \$1 cap. Either version, they said, would cripple the cigar industry in Nicaragua. In 2006, Nicaragua exported \$33.8 million dollars in cigars to the United States.

¶3. (U) According to Alejandro Martinez Cuenca, owner of the Joya de Nicaragua cigar company and a noted Sandanista economist, demand for premium, hand-rolled cigars is elastic, so any increase in price produces a corresponding decrease in sales. He also suggested that premium, hand-rolled cigars are a luxury item and are less likely than cigarettes and machine-rolled cigars to be abused in their use.

¶4. (U) Martinez Cuenca claimed the proposed cigar tax would jeopardize the jobs of 15,000 cigar workers. He added that some 15,000 indirect employees could also lose their jobs in the sector. Martinez Cuenca said that the average salary for a worker in a cigar manufacturing company is \$160 - \$200 dollars a month. [Note: The minimum wage for the manufacturing sector is approximately \$77 a month. End Note.] Meanwhile, Omar Ortez of Nicaraguan American Tobacco (NATSA) reported that 95% of those employed by the Nicaraguan cigar industry are between the ages of 18 and 25 and that more than 60% are women.

¶ 15. (U) In most cases, said Martinez Cuenca, these employees are the only wage earners in a family of five, meaning that 150,000 Nicaraguans, of a regional population of 500,000, would be affected by the measure in the northern departments of Esteli, Madriz, and Nueva Segovia where tobacco cultivation and cigar manufacturing is concentrated. Absent jobs in the tobacco sector, he suggested that most workers would return to subsistence agriculture or other seasonal work that would pay much less. Representatives of the association also claimed that many in the region would likely immigrate to the United States were they to lose their jobs in the tobacco sector.

Industry Response

¶ 16. (U) Cigar industry representatives have met with Nicaraguan government officials to seek their support. Minister of Trade, Industry, and Development Orlando Solorzano told the Ambassador in their July 26 meeting that he believes the tax would be inconsistent with CAFTA-DR obligations, if implemented (septel). Martinez Cuenca later suggested to the Ambassador that although it might be difficult to show that the tax were inconsistent with CAFTA-DR, it would clearly violate the spirit of the agreement. He said market access for cigars, which now enter duty free under CAFTA-DR, would become meaningless. The Ambassador--both in his meeting with MIFIC Minister Solorzano and with cigar industry representative--replied that President Bush has already threatened to veto the bill, which may make a trade complaint unnecessary.

¶ 17. (U) Nonetheless, representatives of the cigar industry in Nicaragua suggested they would seek to communicate with members of the U.S. Congress to inform them of the negative economic and social consequences the tobacco tax increase would have in Nicaragua. They said they would coordinate their efforts with cigar industry representatives in Honduras and the Dominican Republic. Nestor Plasencia, president of the association, has already written to U.S. Secretary of Commerce Carlos Gutierrez on the issue. [Note: Post faxed this letter to Commerce/ITA/MAC on August 3. End Note.]

Comment

¶ 18. (SBU) Although industry representatives emphasized the social and economic wellbeing of their workers in their meeting with the Ambassador, they are no doubt clearly also concerned the tax would harm their bottom line. We have been careful to emphasize that we are limited by U.S. law from providing support for the tobacco sector (Reftel). While we cannot independently confirm the employment information provided by the sector, a tax increase would likely dampen demand for cigars in the United States and threaten the livelihoods of many in the impoverished northern part of Nicaragua. President Ortega may also seize on the tax as an example of "U.S. duplicity" in offering market access through CAFTA-DR only to cut it off after a trading partner begins to export. End Comment.

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